

CHAPTER 2

PERFORMANCE OF SELECTED SECTORS

OVERVIEW

- The manufacturing sector contracted, largely due to a steep decline in the volatile biomedical manufacturing cluster.
- The wholesale and retail trade sector continued to expand in the second quarter.
- The transport and storage sector continued to register robust growth in the second quarter, with a pick-up in the air transport sector.
- The financial and business services sectors continued to register healthy growth, although at a more moderate pace compared to the previous quarter

MANUFACTURING

- The manufacturing sector contracted 5.2 per cent in the second quarter, a reversal from the preceding quarter's 13 per cent growth.
- The contraction was mainly driven by the biomedical manufacturing cluster which shrank by 28 per cent. This was largely due to a 31 per cent decline in pharmaceuticals output, as local pharmaceutical companies switched their product mix to pharmaceutical ingredients with lower values compared to the second quarter of 2007.
- The transport engineering cluster grew by 10 per cent as the marine & offshore engineering segment maintained its strong performance, expanding by 19 per cent in the second quarter.
- Other clusters saw mixed performance. The chemicals cluster grew 1.2 per cent, while the precision engineering cluster dipped 1.7 per cent. In the face of weakening global demand, the electronics cluster slowed to 0.2 per cent growth.

Exhibit 2.1: Manufacturing Growth Rates

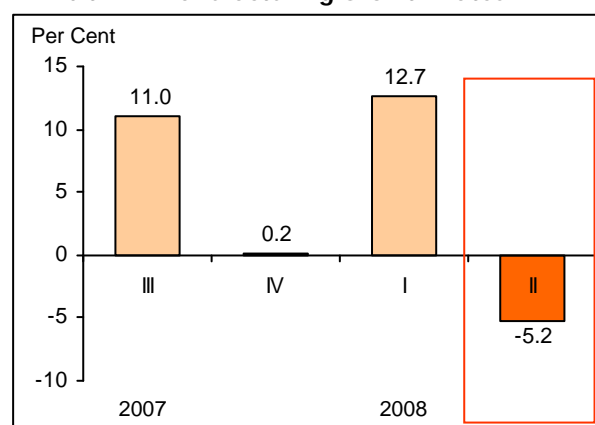
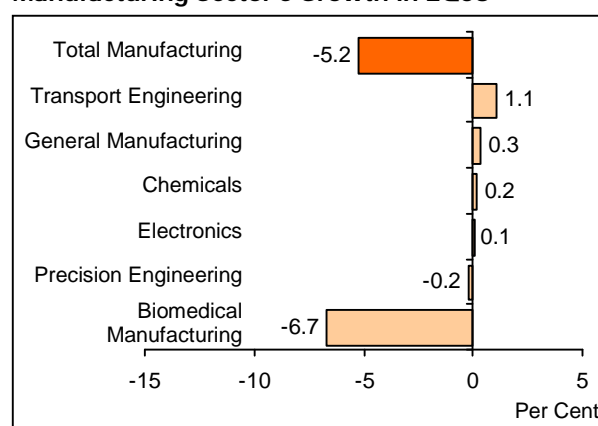


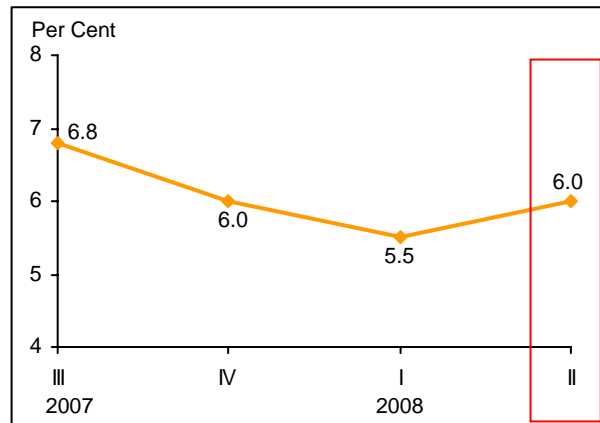
Exhibit 2.2: Percentage Point Contribution to Manufacturing Sector's Growth in 2Q08



WHOLESALE AND RETAIL TRADE

- The wholesale and retail trade sector grew by 6.0 per cent in the second quarter, higher than the 5.5 per cent growth registered in the previous quarter.
- Real non-oil re-exports strengthened 14 per cent in the second quarter, stronger than the 11 per cent growth posted in first quarter.
- The retail sales index (RSI) declined by 2.9 per cent in the second quarter. However, this represented a decline over relatively higher base in same period last year (8.1 per cent growth). Excluding motor vehicle sales, the RSI declined by 1.4 per cent in the second quarter.

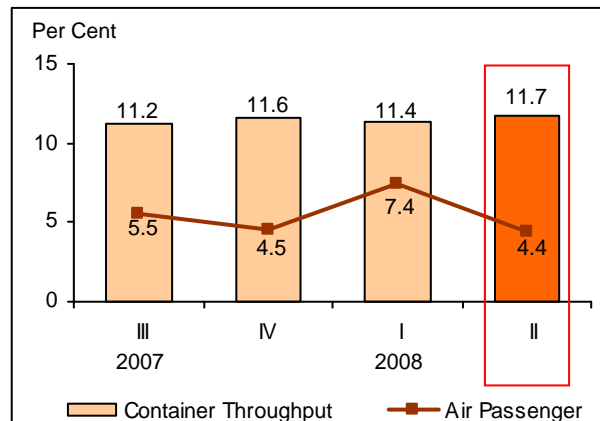
Exhibit 2.3: Wholesale and Retail Trade Growth Rates



TRANSPORT AND STORAGE

- The transport and storage sector grew by 5.7 per cent in the second quarter, following 5.4 per cent growth in the previous quarter.
- Container throughput sustained double-digit growth, reflecting sustained global trade. Although the number of air passengers did not grow as strongly in the second quarter compared to the previous quarter, growth in value-added increased because of strong growth in distance travelled by air passengers.

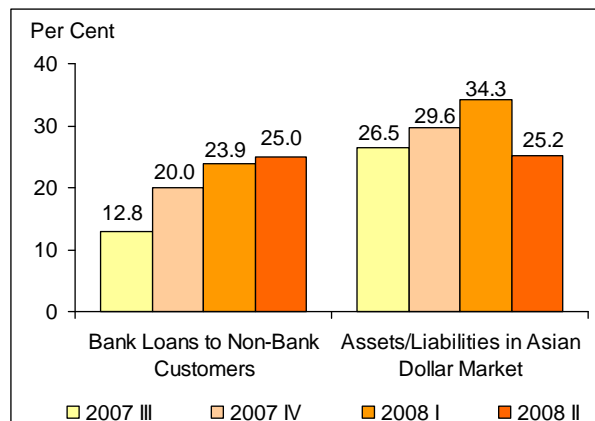
Exhibit 2.4: Container Throughput and Air Passenger Growth



FINANCIAL SERVICES

- Following the 14 per cent growth in the previous quarter, the financial services sector registered further growth of 10 per cent.
- Growth was broad-based, underpinned by robust expansions in the domestic and offshore banking segments. This is reflected in the continued growth of commercial bank loans and the stock of assets/liabilities in the Asian Dollar Market.

Exhibit 2.5: Growth of Bank Loans to Non-Bank Customers and Stock of Assets/Liabilities in Asian Dollar Market



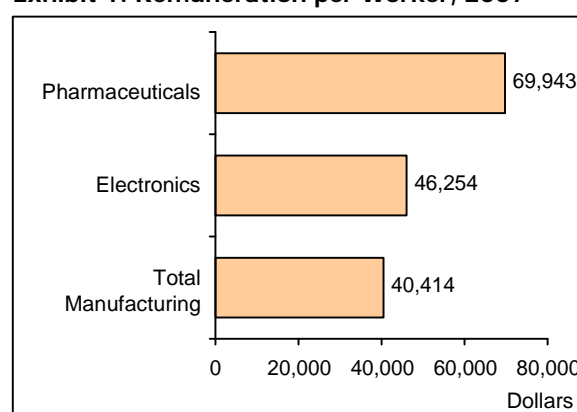
Box 2.1 Singapore's Pharmaceutical Manufacturing Sector

Pharmaceutical production has emerged as a key pillar of the manufacturing sector...

Pharmaceutical manufacturing has emerged as a key component of Singapore's manufacturing sector in recent years. Since 2000, a range of pharmaceutical companies such as GlaxoSmithKline, Merck, Sanofi-Aventis, Pfizer, Schering-Plough and Wyeth have opened facilities in Singapore. Many of them have been attracted here because of Singapore's strong physical and regulatory infrastructure, global connectivity and skilled manpower base.

As a result, pharmaceutical's share of manufacturing value-added in Singapore increased from 7.7 per cent in 2000 to 22 per cent in 2007. Jobs in pharmaceutical manufacturing are also high-paying ones. In 2007, workers in pharmaceutical manufacturing saw average wages of almost \$70,000. This was higher than the average wages in the electronics cluster and in the overall manufacturing sector ([Exhibit 1](#)).

Exhibit 1: Remuneration per Worker, 2007



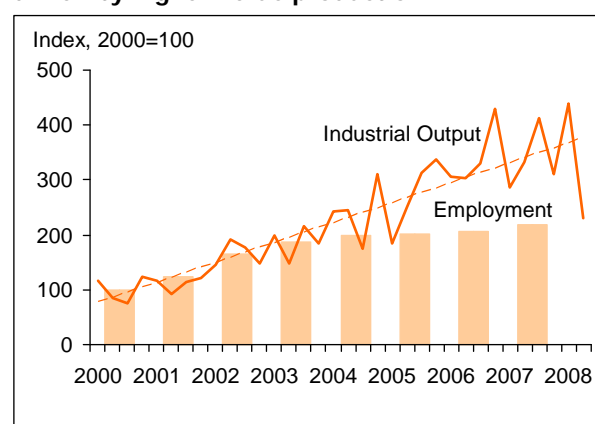
Pharmaceutical output is volatile in short-term...

In monthly or quarterly data, pharmaceutical output appears volatile because of firms' production schedules. Each manufacturing plant in Singapore produces a range of pharmaceutical products in distinct batches. The type of product to produce and the timing of the production depend on the parent company's supply chain decisions. As different pharmaceutical products have different market values, various companies' production schedules will affect the value of overall pharmaceutical output produced in a particular month or quarter. Moreover, between different batches of production, some downtime is needed for plant maintenance.

But long-term pharmaceutical output growth has been strong...

Despite short-term fluctuations in output, pharmaceutical output has been trending upwards since 2000. With Singapore's success in attracting investments, pharmaceutical output grew at a compound annual growth rate (CAGR) of 19 per cent between 2000 and 2007. Even in recent years, although relatively fewer pharmaceutical plants have commenced operations, output has continued to grow as pharmaceutical companies have started to produce higher-value products in Singapore ([Exhibit 2](#)).

Exhibit 2: Recent pharmaceutical output growth driven by higher-value production



and employment in pharmaceutical manufacturing has been steadily increasing...

In addition, although pharmaceutical output is volatile, employment has seen steady growth. Employment more than doubled from about 1,900 in 2000 to about 4,200 in 2007, with slower growth seen in recent years due to fewer plant openings. In particular, although 2007 saw a 2.1 per cent dip in output due to volatility throughout the year, pharmaceutical employment increased from about 4,000 to 4,200. These trends reflect the confidence that pharmaceutical manufacturers have in their operations in Singapore.

Outlook remains optimistic...

The outlook for pharmaceutical manufacturing remains optimistic. Existing manufacturing facilities are in the process of introducing new, innovative and higher-value products to be manufactured in Singapore. There is also a strong pipeline of pharmaceutical manufacturing facilities being constructed in Singapore. These include five biologics manufacturing investments – two by Lonza, and one each by GlaxoSmithKline Biologicals, Genentech and Novartis – which will help Singapore tap on the growing market for biologics-based pharmaceuticals. As EDB continues to attract more investments here, pharmaceuticals output will continue to grow and job creation will remain strong. Moreover, with more firms in a diverse and vibrant pharmaceutical manufacturing sector, individual firms' production decisions will have less impact on overall output, and short-term swings in pharmaceutical output will probably decrease.

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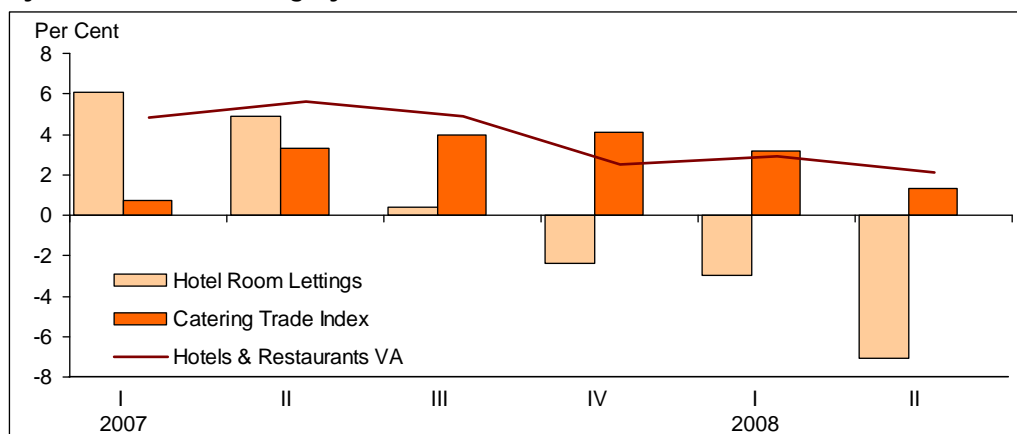
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Box 2.2 Recent Trends in Singapore’s Hotel Sector

Slower growth in the hotels and restaurants sector as a result of falling room lettings...

The real value-added (VA) of the hotels and restaurants sector grew by 2.5 per cent in the previous three quarters, lower than the 5.1 per cent growth registered in the first three quarters of 2007 (Exhibit 1). The slower growth was largely due to the hotels segment of the sector. While the catering index (a proxy for the performance of the restaurants segment) continued to register positive growth during this period, the number of room lettings of gazetted hotels (a proxy for the real growth of the hotels segment) has been in decline since the fourth quarter of 2007.

Exhibit 1: Recent growth in hotels and restaurants sector was largely driven by the restaurants category



But the hotel industry is enjoying double-digit growth in RevPAR across all segments...

Singapore hotels have been increasing their room rates, which has resulted in higher revenue per available room (RevPAR). In the first half of 2008, the average room rate (ARR) rose by 30 per cent. The higher ARR led to growth in RevPAR of 25 per cent over the same period (Exhibit 2). Hotels from all tiers experienced this strong growth in RevPAR (Exhibit 3). As a result, the hotel industry posted a robust 22 per cent growth in revenue in the first half of 2008, achieving a record high of \$1.1 billion. As this was due to higher prices, discounting for price changes would result in a decline in real VA, consistent with the decline in room lettings.

Exhibit 2: RevPAR has risen in tandem with ARR

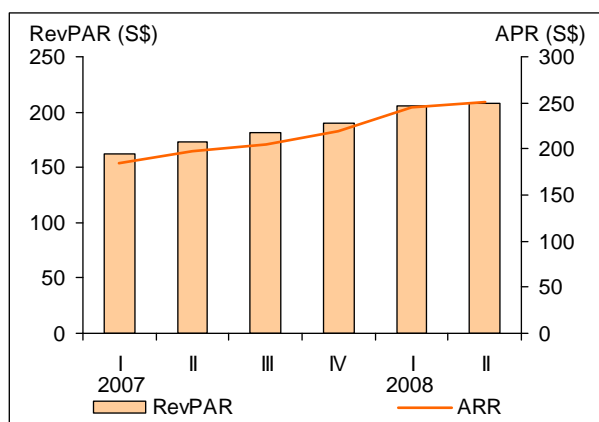
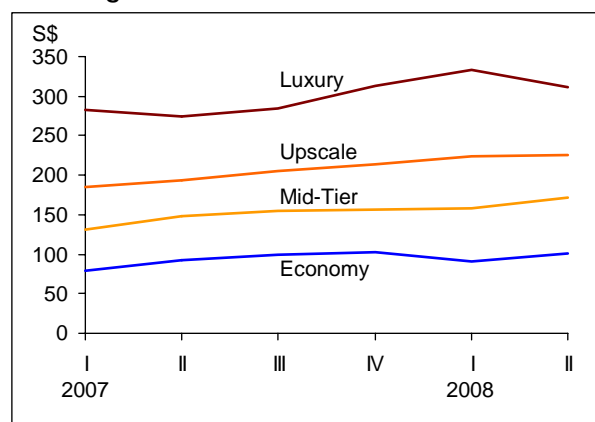


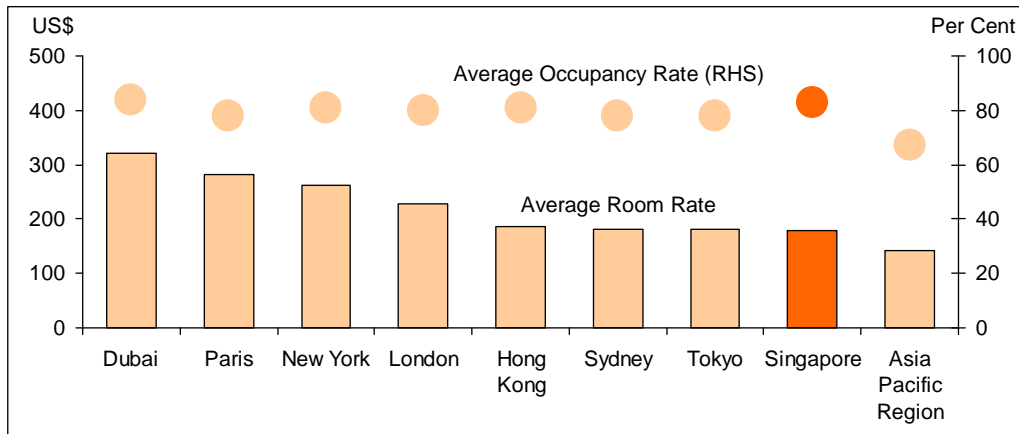
Exhibit 3: Strong growth in RevPAR across all hotel segments



Despite higher average room rates, Singapore's hotel room rates remain lower than other global cities...

Although Singapore's ARR has grown strongly, Singapore's hotel room rates are still lower than those seen in other cities such as Dubai, Paris, New York and London (Exhibit 4). The average occupancy rate (AOR) of Singapore hotels declined slightly by 3.4 percentage points in the first half of 2008 to achieve an AOR of 83 per cent during the period. However, this AOR still ranks as one of the highest when compared to other major cities.

Exhibit 4: Singapore has one of the highest AOR; and our ARR is still lower than other key cities in the first half of 2008



Source: Singapore Tourism Board
Smith Travel Research, "Global Lodging Report for June 2008"

The outlook for hotel industry remains positive...

The recent decline in gross lettings of hotel rooms has contributed to the slower growth in the real value-added of the hotels and restaurants sector. Nevertheless, with the AOR still at healthy levels, the strong growth in ARR has helped to drive up revenue across all hotel segments.

Looking ahead, the outlook for the hotel industry remains positive. According to the Business Expectations Survey for the services sector, a net weighted balance of 37 per cent of hoteliers projects better business in the next six months. The hotel industry will also benefit from major upcoming developments in the tourism industry. These include the inaugural 2008 FORMULA 1™ SingTel Singapore Grand Prix, the opening of Singapore's two Integrated Resorts in 2009 and 2010, and the Youth Olympic Games in 2010.

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